

**Detroit Public Library
Burton Endowment Fund
FINANCIAL STATEMENTS
June 30, 2008**

Detroit Public Library
Burton Endowment Fund

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INDEPENDENT AUDITOR'S REPORT

Members of the Detroit Library Commission
Detroit Public Library
Detroit, Michigan

We have audited the accompanying financial statements of the Burton Endowment Fund of the Detroit Public Library, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Detroit Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Burton Endowment Fund and do not purport to, and do not, present fairly the financial position of the Detroit Public Library, as of June 30, 2008, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Burton Endowment Fund of the Detroit Public Library, as of June 30, 2008, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 18, 2008

Detroit Public Library
Burton Endowment Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

As management of the Detroit Public Library, we offer this discussion and analysis of the activities of the Burton Endowment Fund (the Fund) for the year ended June 30, 2008.

The discussion and analysis of financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Fund's financial statements which will immediately follow this section.

Using this Financial Report

This annual report consists of the fund financial statements for the Burton Endowment Fund of the Detroit Public Library. The fund financial statements present a short-term view; they tell us how the Fund's resources were spent during the year, as well as how much is available for future spending.

Financial Highlights

The following represent the most significant financial highlights for the year ending June 30, 2008:

- The assets of the Fund exceeded its liabilities at the end of the fiscal year by \$2,689,897 (fund balance).
- The Fund's fund balance decreased by \$133,073 as the result of current year operations.

Condensed Financial Information

The following table presents condensed information about the Fund's financial position compared to the prior year:

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$ 354,223	\$ 539,552
Investments	2,327,014	2,687,776
Accounts receivable	354	-
Due from other funds	<u>16,350</u>	<u>16,350</u>
Total assets	<u>\$ 2,697,941</u>	<u>\$ 3,243,678</u>
Liabilities		
Current liabilities	\$ 8,044	\$ 420,708
Fund Balance		
Reserved	150,000	150,000
Unreserved	<u>2,539,897</u>	<u>2,672,970</u>
Total fund balance	<u>2,689,897</u>	<u>2,822,970</u>
Total liabilities and fund balance	<u>\$ 2,697,941</u>	<u>\$ 3,243,678</u>

Detroit Public Library
Burton Endowment Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The following table shows the changes in fund balance in a comparative format for the years ending June 30, 2008, and June 30, 2007, respectively.

	<u>2008</u>	<u>2007</u>
Revenues		
Investment earnings (loss)	\$ (63,438)	\$ 373,288
Other	<u>11,447</u>	<u>12,238</u>
Total revenues	(51,991)	385,526
Expenditures		
Library reference materials	45,810	48,751
Bank and professional fees	27,826	29,179
Other	<u>7,446</u>	<u>139</u>
Total expenditures	<u>81,082</u>	<u>78,069</u>
Change in fund balance	<u><u>\$(133,073)</u></u>	<u><u>\$ 307,457</u></u>

Economic Factors

The Fund's ability to enhance the Burton Historical Collection is dependent on the performance of the endowment's investments. Changes in economic conditions have significant impact on activities of the Fund.

Contacting the Library's Management

This financial report is intended to provide the financial statement reader with a general overview of the Fund's finances and demonstrate the Detroit Public Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library's Financial Department at 5201 Woodward Avenue, Detroit, Michigan 48202.



FUND FINANCIAL STATEMENTS

Detroit Public Library
Burton Endowment Fund

GOVERNMENTAL FUND BALANCE SHEET

June 30, 2008

ASSETS

Cash and cash equivalents	\$ 354,223
Investments	2,327,014
Accounts receivable	354
Due from other funds	<u>16,350</u>

TOTAL ASSETS	<u><u>\$ 2,697,941</u></u>
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LIABILITIES AND FUND BALANCE

LIABILITIES

Accrued liabilities	\$ 2,609
Due to other funds	<u>5,435</u>

TOTAL LIABILITIES	8,044
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FUND BALANCE

Reserved for Burton Historical Collection	150,000
Unreserved	
Designated for the Burton Historical Collection	<u>2,539,897</u>

TOTAL FUND BALANCE	<u><u>2,689,897</u></u>
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,697,941</u></u>
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See accompanying notes to financial statements.

Detroit Public Library
Burton Endowment Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended June 30, 2008

REVENUES	
Charges for services	\$ 10,600
Net investment loss	(63,438)
Other	<u>847</u>
TOTAL REVENUES	(51,991)
EXPENDITURES	
Current	
Recreation and cultural	
Library reference materials	45,810
Bank and professional fees	27,826
Other	<u>7,446</u>
TOTAL EXPENDITURES	<u>81,082</u>
NET CHANGE IN FUND BALANCE	(133,073)
Fund balance, beginning of year	<u>2,822,970</u>
Fund balance, end of year	<u><u>\$ 2,689,897</u></u>

See accompanying notes to financial statements.

Detroit Public Library
Burton Endowment Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF THE FUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Burton Endowment Fund (the Fund), as modified, is an irrevocable trust in perpetuity created by the late Clarence M. Burton on October 17, 1921. The income of the trust is to be used for the purchase of books, papers, pamphlets and other forms of historical data, which are suitable for the Burton Historical Collection located in the Detroit Public Library. The Fund is administered by the Detroit Library Commission (the Commission).

The financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund's more significant accounting policies are described below.

1. Reporting Entity

The Fund is considered a fund of the Detroit Public Library. As a result, industry standards require the Library to include the financial activities of the fund in the Library's annual financial report. The Detroit Public Library's annual financial report may be obtained from the Library's management.

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Burton Endowment Fund, and do not purport to, and do not, present fairly the financial position of the Detroit Public Library as of June 30, 2008, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

2. Basis of Presentation

The Fund is considered a separate accounting entity. The operation of the Fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Fund resources are accounted for based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The Burton Endowment Fund is a governmental fund of the Detroit Public Library and is used to account for the financial resources endowed to the Library by Clarence M. Burton. The resources of the Fund are legally restricted by the terms of the endowment agreement. Therefore, the Fund is classified as a Permanent Fund.

3. Measurement Focus

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Detroit Public Library
Burton Endowment Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF THE FUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Deposits and Investments

The Fund's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments consist of equities and fixed income securities with original maturities of more than three months from the date of acquisition and are reported at fair value, based on quoted market prices.

NOTE B: DEPOSITS AND INVESTMENTS

In accordance with the Uniform Management of Institutional Funds Act, Public Act 157 of 1976, in addition to an investment otherwise authorized by law or by the endowment agreement, the Detroit Library Commission, subject to specific limitations set forth in the endowment agreement, may:

1. Invest and reinvest the Fund in real or personal property deemed advisable by the governing board, whether or not it produces a current return, including mortgages, stocks, bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government, or subdivision, or instrumentality thereof.
2. Retain property contributed by a donor to the Fund for as long as the governing board deems advisable.
3. Include all or any part of the Fund in a pooled or common fund maintained by the institution.
4. Invest all or any part of the Fund in any other pooled or common fund available for investment, including shares or interest in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board.

The Fund's cash, cash equivalents, and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. The Detroit Public Library, as administrator for the Fund, does not have a deposit policy for custodial credit risk. At year end, the Fund had \$68,731 of bank deposits (checking account) that were uninsured and uncollateralized. The Library believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Detroit Public Library
Burton Endowment Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Detroit Public Library, as administrator for the Fund, does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Library's name:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
Short-term investments	\$ 188,294	N/A
U.S. government obligations	171,338	6.69
U.S. federal agencies	141,956	4.76
Mortgage backed securities	49,783	4.10
Collateralized mortgage obligations	104,005	8.38
Asset backed securities	121,531	3.71
Domestic corporate bonds	195,784	6.91
Domestic and foreign stocks	1,434,098	N/A
Uncategorized pooled investment funds	<u>108,519</u>	N/A
Total investments	<u>\$ 2,515,308</u>	

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Detroit Public Library, as administrator for the Fund, does not have a policy that restricts investment maturities.

Credit Risk

The Uniform Management of Institutional Funds Act does not limit investments of the Fund to certain credit ratings issued by nationally recognized statistical rating organizations. Similarly, the Detroit Public Library has no investment policy that limits its investment choices.

The Fund's investments were rated by Standard & Poor's as follows:

	<u>Fair Value</u>
AAA	\$ 432,185
AA+	21,794
AA	89,697
A+	55,770
A	28,522
Not rated	<u>1,887,340</u>
	<u>\$ 2,515,308</u>

Detroit Public Library
Burton Endowment Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

Concentration of Credit Risk

The Detroit Public Library places no limit on the amount the Fund may invest in any one issuer.

Foreign Currency Risk

The Detroit Public Library, as administrator for the Fund, does not have a policy for foreign currency risk. The Fund's exposure to foreign currency risk is as follows:

	<u>Fair Value</u>
Foreign stock	\$ <u>114,752</u>

Investment Earnings (Loss) Summary

Investment earnings (loss) resulted from the following:

Current year change in fair value	\$(174,605)
Interest, dividends, and realized gains	<u>111,167</u>
Net investment loss	\$(<u>63,438</u>)

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details amounts due from other funds of the Detroit Public Library to the Burton Endowment Fund at June 30, 2008:

Due from General Fund	\$ <u>16,350</u>
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The following schedule details amounts due to other funds of the Detroit Public Library from the Burton Endowment Fund at June 30, 2008:

Due to Grants and Gifts Fund	\$ <u>5,435</u>
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Amounts appearing as interfund payables and receivables arose from one fund paying for a good or service that at least a portion of the benefit belonged to another fund.

NOTE D: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Detroit Library Commission has set aside for specific purposes.

Through the Burton Endowment Fund agreement dated October 17, 1921, securities with a par value of \$50,000 were contributed to the Detroit Library Commission. Once the endowment principal reached a fair value of \$150,000, the investment earnings of the Fund were exclusively designated for the purchase of historical data for the Burton Historical Collection. For this reason, \$150,000 of the fund balance has been reserved and the remaining fund balance has been designated for the Burton Historical Collection.

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

Members of the Detroit Library Commission
Detroit Public Library
Detroit, Michigan

We have audited the financial statements of the Burton Endowment Fund of the Detroit Public Library as of and for the year ended June 30, 2008, and have issued our report thereon dated November 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Detroit Public Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Detroit Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Detroit Public Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies. Because the audit of the records for the year ended June 30, 2007, was recently completed, many of the recommendations made in our previous report on internal control over financial reporting and compliance and other matters have been repeated.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Detroit Public Library personnel prepare monthly financial reporting at the fund level.

PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

The personnel of the Detroit Public Library understand substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of note disclosures. Currently the note disclosures are prepared during the audit process. This issue was noted and reported in our previous audit comments.

We are communicating these circumstances as required by professional standards and do not see a need for any change in the situation at this time.

FRAUD RISK MANAGEMENT PROGRAM

During discussions with management, we noted that the Detroit Public Library had not developed or implemented a fraud risk management program as of June 30, 2008. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Library not developing a fraud risk assessment and monitoring program, it is unable to assess the Burton Endowment Fund's vulnerabilities to fraudulent activities and whether any of those exposures could result in material misstatement of the financial statements. This issue was noted and reported in our previous audit comments.

We recommend that the Library's management develop and the Detroit Library Commission formally implement a fraud risk management program that is appropriate for the size and complexity of the entity. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the entity, and instructions for reporting fraud within the chain of command.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following significant deficiency to be a material weakness, as defined above.

SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk and through discussions with management, we noted that the Library did not have sufficient segregation of duties in its accounting structure related to the Burton Endowment Fund. Specifically, we noted that for the year ended June 30, 2008, the Business and Financial Operations Manager entered all receipts and journal entries in the general ledger. In addition, this individual also directly received the bank statement, and prepared the monthly bank reconciliation. These issues were noted and reported in our previous audit comments. Reasonable segregation of duties is essential to sound internal control and necessary to prevent and detect errors and fraud.

While this is a common occurrence in many organizations due to the limited number of employees, the Detroit Library Commission should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the Library's management must provide a greater review and supervision of employee functions and procedures. While greater review and supervision would serve as a mitigating control, it would not necessarily directly address the lack of segregation of duties described in this situation.

SEGREGATION OF DUTIES - CONTINUED

We recommend that management review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend management provide greater review and supervision of employee functions and procedures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Burton Endowment Fund's financial statements are free of material misstatement, we performed tests of the Detroit Public Library's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no such instances of noncompliance.

This report is intended solely for the information and use of management of the Detroit Public Library, the members of the Detroit Library Commission, and others within the Detroit Public Library and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 18, 2008